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REGIONAL STATE AID CONTROL: DOES IT NEED REBOOTING OR RE-ROUTING?

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EXECUTIVE SUMMARY

This review of Competition policy control of regional aid takes place in something of an interregnum. There is currently **no 'grand plan' for State aid reform** as in the past. However, the Commission has published a consultation strategy on the State aid rules and has begun its appraisal of a large body of rules.

The cornerstone of State aid control, the General Block Exemption Regulation (GBER) is due to expire at the end of 2020 necessitating a **'fitness check'** of the GBER itself and of a number of other Regulations and guidelines adopted as part of the 2012 State Aid Modernisation package. This in turn has resulted in Commission proposals to **prolong the GBER** since the fitness check was started too late to enable a revised Regulation to enter into force from 1 January 2021.

The commission also proposes to **prolong the Regional Aid Guidelines** (RAG). Current data suggests this would change 'a' region coverage though under the Commission proposals, no *existing* 'a' regions would lose that status. The use of EU27 (excluding the UK) rather than EU28 averages may also affect coverage. Consultation on the RAG prolongation elicited comparatively little response, but there were three main concerns: the **bureaucracy** involved in notifying prolongations of maps and aid schemes; the mismatch between the **timeframes for Cohesion policy and the State aid** rules; and the limited **time available to review assisted areas.**

A **targeted consultation on the RAG** has also been conducted. Responses have not yet been published, but initial indications show concerns at future spatial coverage and at the complexity of some aspects of the rules – notably those relating to large firms and sectoral restrictions.

One justification for extending the RAG is to enable the Commission to assess the implementation of regional aid. The **transparency** requirement introduced under the GBER has resulted in an extensive dataset which might be used to this end, though analysis is complicated by definitional issues and differences in approach between countries. A first analysis of the data for the EoRPA countries shows wide variations in the incidence of large regional aid awards.

Among the new developments in both RAG 2014-20 and GBER 2014-20 was the scope for the Commission to make aid authorisation conditional on its approval of an **evaluation plan**. Some 14 regional aid schemes have been subject to such plan, but the evaluation of the Norwegian regionally-discriminating social security concession is the only one to have been finalised. Given the time lags involved in the

outstanding studies, it remains to be seen what impact they might have on future aid approvals.

In the midst of this period of stocktaking and review, a number of questions arise:

1. What do you make of the consultation process on the future of the regional aid rules?
2. What are your priorities for the upcoming RAG review?
3. How do you see, or wish to see, relations between Cohesion policy and the State aid rules evolving?
4. Are the reporting and transparency requirements useful to domestic authorities or simply an additional burden?
5. What merit, if any, do you see in the evaluation plans required by the Commission?

1 INTRODUCTION

This review of Competition policy control of regional aid takes place in something of an interregnum: the current Commission, and Commissioner for Competition policy, remain in post until the end of October, but recent developments have centred on (belatedly) initiating policy evaluations, rather than new policy proposals. Moreover, as EU 'spending' policies, most notably Cohesion policy, prepare for 2021-27, the Commission proposes simply to extend the main elements of the current State aid control framework into the next budgetary period, ending the explicit alignment of the Cohesion policy and regional aid control calendars. More generally, the overarching narratives provided by the past major State aid reform programmes – the State Aid Action Plan (SAAP) in 2005 and the State Aid Modernisation initiative (SAM) in 2012 – have been succeeded by an emphasis on continuity and stability. In particular, the Commission is taking stock of the impact of current frameworks to establish to what extent they can be rolled forward or require changes.

Against this background, this paper provides a round-up of recent issues and developments that affect the future of regional aid control.[1] It begins with a discussion of the consultations on the General Block Exemption Regulation (section 2). Section 3 assesses the implications of prolonging the current Regional Aid Guidelines (RAG) and Section 4 reviews initial Member States perspectives on the future of the RAG. Section 5 explores the data available on regional aid spending under the new transparency requirements of the GBER and Section 6 looks at progress with the evaluation studies required by DG COMP as part of State aid compliance. Section concludes by highlighting some issues and questions as a starting point for discussion.

2 GBER: EXTENSION, PROLONGATION AND 'FITNESS CHECKS'

The General Block Extension Regulation (GBER)[2] has become the cornerstone of State aid control. Across all aid objectives, the proportion of aid expenditure accounted for by GBER schemes amounted to 38 percent by 2017 and 82 percent of all new aid measures were block-exempted in 2017.[3] It seems clear that the dominant role of the GBER will not only continue, but be expanded further. Indeed, 2018 saw the emergence of proposals to **extend the GBER** to cover European Territorial Cooperation, Horizon Europe 'Seal of excellence' projects and InvestEU. However, the GBER is due to expire at the end of 2020 necessitating a **'fitness check'** of the GBER itself and of a number of other Regulations and guidelines adopted as part of the 2012 State Aid Modernisation package. This requirement in turn has resulted in Commission proposals to **prolong the GBER** since this analysis was started too late to enable a revised Regulation to enter into force from 1 January 2021.

2.1 Extension

The categories of aid covered by the block exemptions are determined by the Enabling Regulation[4] with the 'umbrella' approach of the GBER, replacing more specific Regulations (for regional aid, SME aid etc.) since 2009. Successive iterations of the Enabling Regulation over the last 20 years have expanded the range of policy areas covered by block exemption Regulations, reflecting the availability of Commission decisional practice. The most recent amendment enables the Commission to extend the GBER to cover two new categories: (i) domestic funding of financial products supported by InvestEU (the new EU-level vehicle for guaranteeing financing and investment operations); and (ii) European Territorial Cooperation (ETC) programmes.[5]

Following these revisions to the Enabling Regulation, the Commission has been consulting on amendments to the GBER to include domestic funding of InvestEU and support for ETC projects, together with aid for RD&I projects which have received a 'Seal of Excellence' under Horizon 2020 or Horizon Europe; this second round of consultations ends in September 2019.

2.2 Prolongation

Beyond these expansions to the scope of the GBER, the main focus of change so far has been on the prolongation of the GBER,[6] the *de minimis* Regulation[7] and of various guidelines reformed as part of the SAM package,[8] including the Regional Aid Guidelines (RAG),[9] which are also due to expire end December 2020. Prolongation was deemed necessary in order to enable the 'fitness check' to be completed.

On 15 April 2019 the Commission launched a month-long consultation[10] on proposals to prolong the SAM package. The proposal comprised two elements:

- A draft **Regulation extending both the *de minimis* Regulation and the GBER** to 31 December 2022;[11] regarding the GBER, Member States seeking to use the prolongation would be required to update the summary information provided on any schemes covered by it, and to prolong the validity of the assisted areas map

- A draft **Communication concerning guidelines in the SAM package**[12] due to expire end 2020.[13] Except in the case of the Regional Aid Guidelines, which involve potential changes to the assisted area maps the proposals are essentially limited to prolonging the package of guidelines to 31 December 2022. The implications of the extension of the regional aid maps are discussed are discussed in Section 3 below.

The number of responses from national public authorities to the April 2019 consultation was relatively limited, with 13 official positions submitted. At one level this is unsurprising since, in principle, the consultation concerned only the question of prolongation, which was not *generally* seen as contentious. Nevertheless, several common concerns and suggestions arose - see Figure 2.1.

Figure 2.1: Responses to the consultation on the prolongation of the SAM package

Member State	Key points
Czech Republic	• Notes potential complications arising from different time periods for GBER and Operational Programmes • Proposed single notification by Member States to cover all GBER schemes where mere extension proposed.
Estonia	• Supports prolongation • Proposes automatic extension of GBER schemes where no changes are proposed.
Finland	• Supports prolongation
France	• Proposes that the regional aid guidelines are revised as soon as possible • Raises question of whether the R&D&I and broadband aid guidelines are to be prolonged • Notes potential complications arising from different time periods for GBER and Operational Programmes, and other elements dependent on the Multiannual Financial Framework, such as InvestEU • Proposes that very clear transitional rules by provided for Programme Managers and auditors • Proposes automatic extension of GBER schemes where no changes are proposed.
Hungary	• Questions the feasibility of the timescale for possible assisted area map revisions and proposes longer timelines
Italy	• Notes potential complications arising from different time periods for GBER and Operational Programmes; proposes prolongation to end 2023 (or June 2023 with transition clause) • Questions the feasibility of the timescale for possible assisted area map revisions and proposes more flexibility
Latvia	• Notes potential complications arising from different time periods for GBER and Operational Programmes
Lithuania	• Supports prolongation
Netherlands	• Proposes that COM should consider amending the GBER and de minimis Regulations at any time before two year expiry
Poland	• Supports prolongation • Proposes automatic extension of GBER schemes where no changes are proposed • Raises issue of whether prolongation applies to aid under schemes subject to evaluation • Questions the compatibility of Article 16 (regional aid for urban development) with the post-2020 Structural Fund Regulations, making Article 16 unusable
Slovakia	• Proposes prolongation to end 2023 to coincide with end of eligibility period for current Operational Programmes
Spain	• Proposes prolongation to end 2023 to coincide with end of eligibility period for current Operational Programmes
Sweden	• Notes potential complications arising from different time periods for GBER and Operational Programmes • Questions the feasibility of the timescale for possible assisted area map revisions and proposes that existing maps apply until new maps are approved

Source: *Compiled from published responses to consultation ref HT.5594: https://ec.europa.eu/competition/consultations/2019_gber_deminimis/index_en.html#contributions*

In summary, the key concerns were:

- Potential complications arising from the different time periods for the GBER and the Cohesion policy Operation Programmes
- Bureaucracy involved in re-reporting schemes where no changes are proposed
- Time available to adjust assisted area maps if required

- Prolongation to 31 December 2023 in order to coincide with the end of the eligibility period (N+3) for the 2014-20 programmes.

2.3 'Fitness' checks

In January 2019 the Commission published a **consultation strategy** for the fitness check of the State aid rules.[14] This focused on the *substance* of the rules and did not mention the consultation on the prolongation. Indeed, this may have caused some confusion since some of the responses to the prolongation consultation ventured into issues of content. The fitness check concerns the GBER and the *de minimis* Regulation, the guidelines covered by the prolongation consultation, together with some other frameworks.[15]

The stated aim of the fitness check is assess whether the rules are "fit for purpose, taking account of the SAM, the aims of the legal framework and current and future challenges". As such, the effectiveness, efficiency, coherence, relevance and EU added value of the rules concerned will be assessed in line with the principles set out in the Better Regulation Guidelines and the Better Regulation Toolbox. [16] There are several elements to the approach outlined in the consultation. These include:

- a **public consultation** involving "an extensive questionnaire covering certain provisions of all specific State aid rules as well as the horizontal provisions from a SAM perspective".
- **targeted questionnaires** addressed to the main stakeholders and interested parties (beyond the general public) on specific issues related to individual policy areas and rules
- **information from Member States** gathered in through the Working Group of Member States on State aid and where relevant through questionnaires.

The Commission aimed to launch the public consultation of the evaluation / fitness check in April 2019, with the timing of targeted questionnaires "calibrated in order to ensure the best possible result in terms of number of replies." Within this framework, five consultations were launched and closed in April to July 2019 (Figure 2.2), in addition to the prolongation consultations mentioned above. At the time of writing, the contributions to these consultations had not been published.

Figure 2.2: Consultations launched under the 'fitness check'

Topic	Ref	Closing date
Targeted consultation to stakeholders on the ***de minimis* Regulation**	HT.5647	31 July 2019
Targeted consultation on ex-post evaluation of 2014 **aviation guidelines**	HT.5500	31 July 2019
Targeted consultation for the evaluation of the Guidelines on State aid for **environmental protection and energy** 2014-2020 (EEAG)	HT.5371	19 July 2019
Targeted consultation on ex-post evaluation of **regional aid** framework	HT.5486	19 July 2019
Public consultation on 2012 State aid **modernisation package, railways guidelines and short-term export credit insurance** – fitness check	~	19 July 2019

Source: *DG COMP: https://ec.europa.eu/competition/consultations/closed.html*

3 PROLONGATION OF THE REGIONAL AID GUIDELINES

The proposed prolongation of the 2014-2020 Regional Aid Guidelines (RAG 2014) involves more than simply putting back the expiry date by two years. Instead, the Commission proposes (see Box 3.1 for full text) that:

- By June 2020 the Commission would publish a list of **new 'a' regions**
- It will review aid intensities of existing 'a' regions to check whether a **higher aid intensity** is justified
- If potential new 'a' regions are 'c' areas in 2017-2020, then that assisted area population is deducted from the current 'c' area allocation to give **an 'adjusted' 'c' area population** ceiling.
- By 1 September 2020 Member States should **notify their assisted area maps** (unchanged) or propose changes to 'c' areas subject to a maximum of 50 percent of adjusted 'c' coverage.
- Following map approval by the Commission, Member States could then **prolong regional aid schemes** by notifying them to the Commission before the expiry date.

Box 3.1: Proposals to extend RAG 2014 and amend assisted areas for 2020-2022

The Guidelines on regional State aid for 2014-2020 shall be amended as follows. The following paragraphs are inserted after paragraph 178:

> *'178(1) In view of the expiry of the validity of the national regional aid maps on 31.12.2020, the Commission invites Member States to notify to the Commission their intention to prolong the validity of their national regional aid maps. Member States may bring limited amendments to the national regional aid maps, under the conditions and according to the methodology indicated below.*
>
> *178(2) For the period between 1 January 2021 and 31 December 2022, the Commission will establish by June 2020 the list of NUTS 2 regions with a GDP per capita below 75% of EU average[6], which are not included in Annex I to the Guidelines and will publish a communication on the results of this analysis. The Commission will establish at that moment whether these identified regions may become eligible for regional aid under Article 107(3)(a) of the Treaty and the level of the aid intensity corresponding to their GDP per capita. The Commission will also adjust at that moment the level of the aid intensity of those NUTS 2 regions which are already included in Annex I to the Guidelines as 'a' areas, in case their GDP per capita justifies a higher aid intensity. If the newly identified NUTS 2 regions with a GDP per capita below 75% of EU average are designated as 'c' areas in the national regional aid map approved by the Commission for the period 2014-2020, the percentage of the specific population allocation for 'c' areas indicated in Annex 1[7] to the Guidelines will be adjusted accordingly[8]. The Commission will publish the necessary amendments to Annex 1 by June 2020.*
>
> *178(3) A Member State may within the limit of its adjusted specific allocation for 'c' areas amend the list of 'c' areas contained in its national regional map for the period from 1 January 2021 to 31 December 2022. These amendments may not exceed 50% of its adjusted 'c' coverage.*

178(4) By 1 September 2020 Member States must notify to the Commission their intention to prolong the national regional aid maps and/or any amendments to their national regional aid maps resulting from the inclusion of additional 'a' areas, the adjustments of aid intensities in existing 'a' areas and the exchange of 'c' areas.

178(5) Following the approval of the prolongation of the national regional aid maps until 31 December 2022, Member States may decide to prolong the existing schemes approved on the basis of the present Guidelines. Any prolongation of such schemes must be notified to the Commission in due time before their expiry date.'

6 On the basis of the most recent available GDP in PPS per capita data published by Eurostat at NUTS 2 level on the basis of three-year average.
7 As amended in the Communication from the Commission amending Annex I to the Guidelines on regional aid for 2014-2020. C/2016/3514, OJ C 231, 25.6.2016, p. 1–18.
8 The adjusted population ceiling will be calculated on the basis of the population data used for establishing its initial map. The adjusted population allocation of 'c' areas is obtained by deducting the population of those areas that were included in the national regional aid maps as 'c' areas in the period between 1 January 2017 and 31 December 2020 and may become eligible for regional aid under Article 107(3)(a) of the Treaty for the period between 1 January 2021 and 31 December 2022.

Source: *DG COMP: https://ec.europa.eu/competition/consultations/2019_gber_deminimis/guidelines_en.pdf*

3.1 Implications for assisted area maps

3.1.1 'a' regions

The Commission proposes to review the status of 'a' regions by June 2020. By this time, regional GDP data for 2018 will have been published by Eurostat. Current data suggests a number of changes in coverage though, under the Commission proposals, no *existing* 'a' regions would lose that status until at least end 2022. As such, any changes would all be additions to 'a' region coverage.

Assuming that Brexit takes place before June 2020, the analysis would, presumably, be on the basis of EU27 rather than EU28 data. This suggests that the following **regions would gain 'a' region status** (Map 3.1):[17]

- Province of Luxembourg (BE)
- Notio Aigaio (EL)
- Ceuta (ES)
- Molise (IT)

On the same basis, a number of regions **would lose 'a' region status** (had the Commission proposed also to de-designate areas no longer qualifying):

- Yugozapaden (BG)
- Strední Cechy, Jihozápad, Severovýchod and Jihovýchod (CZ)

- Estonia
- Murcia (ES)
- Sostines Regionas (LT)
- Wielkopolskie, Dolnoslaskie (PL).

Is interesting to note that the **results are different when calculated on an EU28 basis** (compare Map 3.1 and Map 3.2). In addition to the regions listed above, the following would also qualify as 'a' regions:

- Hainaut (BE)
- South Yorkshire, Lincolnshire, Outer London (E&NE), Southern Scotland (UK).

Similarly, Severovýchod (CZ) would remain below the 75 percent threshold on the basis of EU28 rather than EU27 averages.

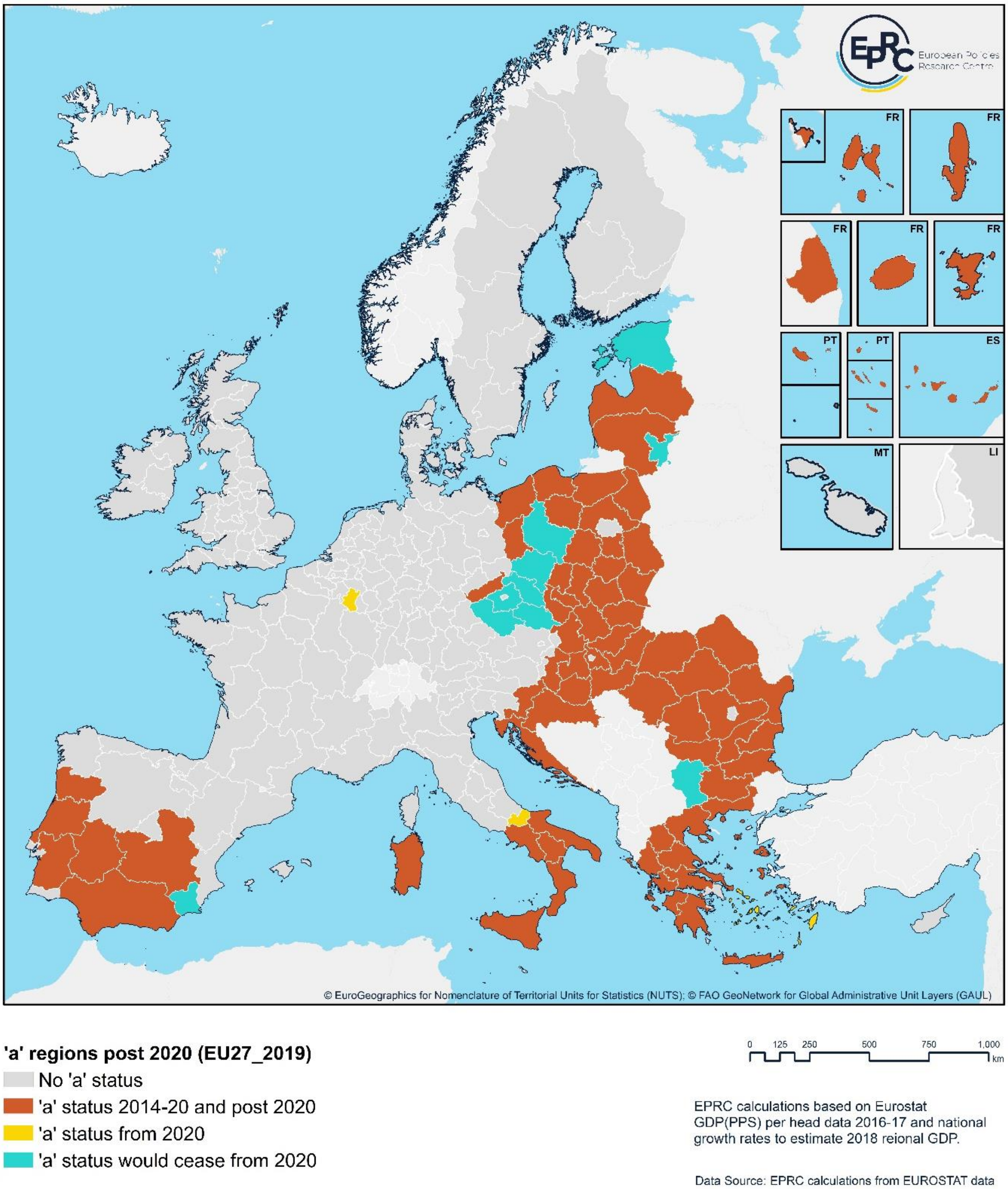
Under the Commission proposals, the choice of EU28 or EU27_19 would only affect Belgium, which would gain significantly under the use of EU28 data (see Table 3.1).

Table 3.1: Impact of using EU27_19 and EU28 data on Commission proposals

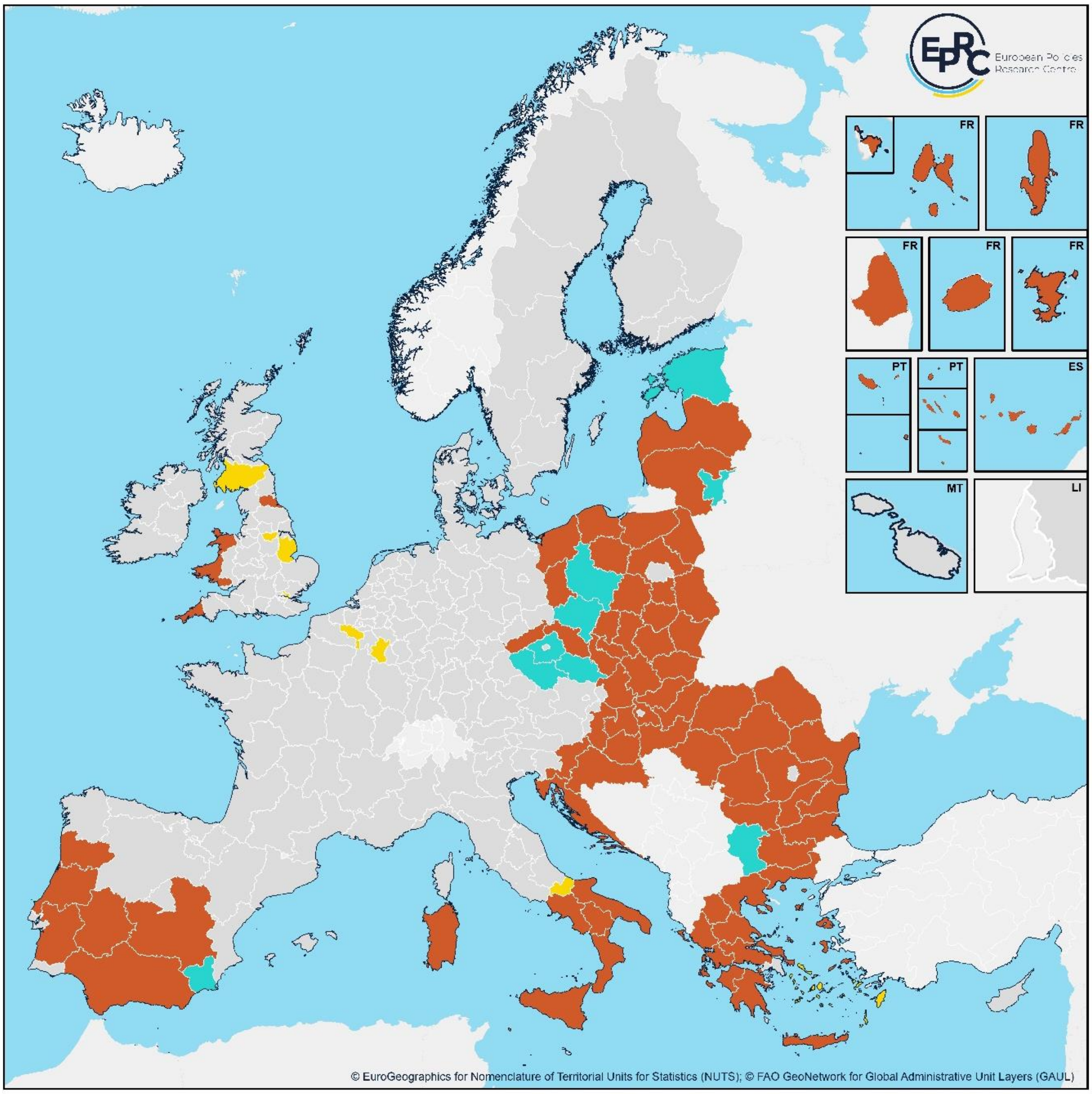
	Additional 'a' regions 2020-22 (EU27_19)	Regions now above 'a' region threshold (EU27_19)	Additional 'a' regions 2020-22 (EU28)	Regions now above 'a' region threshold (EU28)
EU				
BE	2.48		14.54	
BG	~	27.05	~	27.05
CZ	~	53.68	~	39.31
EE	~	100	~	100
EL	3.00	~	3.00	~
ES	0.17	3.13	0.17	3.13
FR	~	~	~	~
HR	~	~	~	~
IT	0.53	~	0.53	~
LV	~	~	~	~
LT	~	26.41	~	26.41
HU	~	~	~	~
PL	~	16.47	~	16.47
PT	~	~	~	~
RO	~	~	~	~
SK	~	~	~	~
SI	~	~	~	~
UK	n/a	n/a	7.53	~

Source: *own calculations based on Eurostat GDP(PPS) per head data 2016-17, national growth rates to estimate 2018 regional GDP and 2010 population data (the basis for the 2014-20 designation).*

Map 3.1: Post 2020 'a' region coverage (EU27_2019)?



Map 3.2: Post 2020 'a' region coverage (EU28)?



'a' regions post 2020 (EU28)

- No 'a' status
- 'a' status 2014-20 and post 2020
- 'a' status from 2020
- 'a' status would cease from 2020

0 125 250 500 750 1,000 km

EPRC calculations based on Eurostat GDP(PPS) per head data 2016-17 and national growth rates to estimate 2018 regional GDP.

Data Source: EPRC calculations from EUROSTAT data.

The Commission proposals imply an **increase in 'a' region coverage** (because the changes are only in one direction) and the postponement of significant de-designation in several countries. This would apply to the whole of Estonia, but also significant parts of the other countries affected – especially Bulgaria, the Czech Republic, Lithuania and Poland.

Table 3.2: Implications for 'a' region coverage under the Commission proposals

Country	'a' region population 2017-20 (EU28)	Com proposal 2021-22 (EU27_19)	Theoretical coverage post 2020 (EU27_19)	Com proposal 2021-22 (EU28)	Theoretical coverage post 2020 (EU28)
EU	28.75	32.71	28.3	30.35	26.79
BE	0	2.48	2.48	14.54	14.54
BG	100	100	72.95	100	72.95
CZ	88.1	88.1	34.42	88.1	48.79
EE	100	100	0	100	0
EL	60.89	63.89	63.89	63.89	63.89
ES	32.55	32.72	29.59	32.72	29.59
FR	2.93	2.93	2.93	2.93	2.93
HR	100	100	100	100	100
IT	31.8	32.33	32.33	32.33	32.33
LV	100	100	100	100	100
LT	100	100	73.59	100	73.59
HU	70.38	70.38	70.38	70.38	70.38
PL	86.3	86.3	69.83	86.3	69.83
PT	69.25	69.25	69.25	69.25	69.25
RO	89.44	89.44	89.44	89.44	89.44
SK	88.48	88.48	88.48	88.48	88.48
SI	52.92	52.92	52.92	52.92	52.92
UK	5.8	n/a	n/a	13.33	13.33

Source: *own calculations based on Eurostat GDP(PPS) per head data 2016-17, national growth rates to estimate 2018 regional GDP and 2010 population data (the basis for the 2014-20 designation).*

3.1.2 'c' areas

The Commission's proposals for 'c' areas are also analogous to the provisions of the mid-term review:[18] first, they propose to **adjust 'c' area coverage** in a given country where areas have been 'regraded' to 'a' region status; and second, they offer Member States the opportunity to **revise 'c' area maps**, subject to a maximum of 50 percent of adjusted coverage. There is no Commission-level review of coverage – for example, a reconsideration of overall 'c' area coverage in the light of changes to 'a' regions.

Member States seeking to implement regional aid schemes after December 2020 would be required to notify their regional aid maps to the Commission by 1 September 2020, *irrespective of whether this involves any changes or a simple prolongation.*

Assuming the Commission proposals are adopted, it remains to be seen how Member States react to the opportunity to revise 'c' areas, but approaches to the (2016) mid-term review suggests that any changes might be modest.

Under that review, the Commission had revised the eligibility and aid intensities of the 'a' regions, affecting Greece, Italy, Portugal, Spain and the United Kingdom. However, the notifications of amendments by Greece, Italy, Portugal, the United Kingdom simply sought to implement the outcome of the Commission review of 'a' regions. Only in Finland, Germany, Hungary (not affected by 'a' region changes) and Spain were changes made to 'c' area coverage or rates.

In **Finland**,[19] the mid-term review involved a population 'swap' with one LAU2 area (Äänekoski) with a population of 20,265 removed from the 'c' area map, to be replaced by five LAU2 areas with a population totalling 20,723. This involved some 20.64 percent of the non-predefined 'c' population coverage in Finland. Finland had retained a population 'reserve' of 1,740 from the previous map approval, enabling coverage to rise slightly. The previous map approval had involved a first use of the population reserve,[20] which can be used at any time. Finland and France are alone in having used a population reserve.

In **Germany** the mid-term review amendment was essentially a technical change aligning assisted areas in Mecklenburg-Vorpommern to the NUTS 2013 classification and taking advantage of the opportunity to adjust award rates in those parts of the region adjacent to 'a' regions in Poland; there were no changes to assisted area coverage.

In **Spain** the changes to 'c' areas involved minor amendments within Catalonia and Baleares amounting to 0.62 percent of the adjusted non-predefined 'c' area population. In both regions, the areas de-designated were replaced with new designations – in other words, there was no exchange of population *between* regions.

Similarly, in **Hungary,** the national authorities made minor changes to 'c' areas within the same NUTS 3 region as part of the review. The areas amounted to 3.49 percent of the total adjusted non-predefined 'c' coverage, leaving a very small population reserve.

Overall, this suggests that the appetite for changes to 'c' areas for 2021-22 is likely to be limited. Changes that have been made have either involved swapping population *within the same* region (Finland, Spain, Hungary) and/or the use of the population reserve, where changes do not involve de-designation, but can be done at any time (France, Finland). More extensive changes not only require more detailed and extensive statistical analysis, but also raise political sensitivities since map changes are a 'zero sum game' where the population ceiling remains unchanged.

3.2 Member State reactions to RAG prolongation proposals

Comparatively few countries raised specific issues on regional aid in the consultation on prolongation. This is perhaps not surprising since no Member State was threatened with losing coverage under the Commission proposals, and some would gain; moreover, EoRPA analysis in 2018 (albeit using 2014-16 data)[21] suggested that many countries would lose coverage if the RAG 2014-20 methodology were re-applied unchanged for 2021-27, and perhaps only Italy would gain. The Commission proposal potentially postpones such loses.

The most widespread concerns about prolongation were the **bureaucracy involved in re-notifying unchanged schemes** and maps and the **discrepancies between the timeframes of the GBER and Cohesion policy**. Some more specific points were also raised (Figure 3.1).

Figure 3.1: Responses to the consultation on the prolongation of the RAG

Member State	Key points
France	• Proposes that the regional aid guidelines are revised as soon as possible; extends the approach to be taken to 'a' regions to 'c' areas.
Hungary	• Questions the feasibility of the timescale for possible assisted area map revisions and proposes longer timelines
Italy	• Questions the feasibility of the timescale for possible assisted area map revisions and proposes more flexibility
Poland	• Raises issue of whether prolongation applies to aid under schemes subject to evaluation • Questions the compatibility of Article 16 (regional aid for urban development) with the post-2020 Structural Fund Regulations, making Article 16 unusable
Sweden	• Questions the feasibility of the timescale for possible assisted area map revisions and proposes that existing maps apply until new maps are approved

Source: *Compiled from published responses to consultation ref HT.5594: https://ec.europa.eu/competition/consultations/2019_gber_deminimis/index_en.html#contributions*

The response from **France** was the most detailed and most critical from national authorities. The French authorities indicated that they would prefer the Regional aid guidelines to be revised as soon as possible and consider that several aspects require review – notably the area designation criteria and the aid rate differentials between Member States. Failing, that, the French authorities support the prolongation of existing 'a' regions and the addition of new regions that meet the criteria, but argue that similar treatment should be afforded to 'c' areas. More specifically, it is argued that the nature of the economic and social weaknesses that justify designation cannot be addressed within a five-year period and that the 'fixed' population ceiling prevents new economic shocks from being addressed. They therefore suggest a change to the Commission's proposals for a new paragraph 178(3) to the Regional Aid Guidelines. This would enable Member State to *add* regions which meet the criteria for designation as non-predefined 'c' area under paragraph 168, subject to a limit of 50 percent of non-predefined 'c' coverage, instead of *substituting* areas in order to respect the current population ceiling for 'c' areas. It seems unlikely that this proposal would be well-received by the Commission. Criterion 1 of paragraph 168 enables the selection of areas located in NUTS 2 or 3 areas where GDP per capita is below or equal to the EU average, and could increase

coverage by up 50 percent of current coverage under the French proposals. In France, this would enable the designation of 'c' areas in all NUTS 2 regions apart from the Paris and Lyon regions (île de France and Rhône-Alpes).

The response from **Poland** focused on two issues. First, the question of whether aid schemes which have been subject to an evaluation plan can also be prolonged. An approved evaluation plan is required under the GBER for schemes with an average annual budget exceeding €150 million. There are three such regional aid schemes in Poland – regional investment aid for the competitiveness of SMEs under the 2014-20 regional programme; support from the Polish Agency for Enterprise Development (PARP); and the Special Economic Zones. The Commission's proposals do not mention schemes that have been subject to an evaluation, and to date very few evaluations appear to have been completed. On this basis, proposals to extend such schemes could be submitted under the GBER, but if the budget remained above the threshold, then approval would, in principle, be subject to the approval of an evaluation plan, while an evaluation may already be ongoing. The second issue concerns the feasibility of using the provisions on regional aid for urban development insofar as they refer to eligible costs and simplified cost options defined under the *current* Structural Fund Regulations, which will no longer apply post-2020.

Concerns raised by **Italy, Sweden** and **Hungary** centre mainly on the limited time available to review assisted areas; Sweden specifically suggests that existing maps should remain in force until a new map is approved.

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4 CONSULTATION ON THE REGIONAL AID FRAMEWORK

The Commission has also consulted on the *substance* of the Regional Aid Guidelines, as well as their duration. This has been undertaken through a 'targeted consultation' on the RAG itself, but also under the fitness check of the SAM package (see Figure 2.2). In addition, it seems that national authorities have been canvassed directly for their views by consultants conducting an assessment of the RAG on behalf of the Commission.

At the time of writing, none of these processes has resulted in comprehensive published outcomes; however, several of the EoRPA partners have shared their responses for the purposes of this paper.[22] Here it is worth noting that not all national authorities have responded to any of the consultations concerning the RAG; others have replied to more than one and some have combined responses on the RAG with responses on the SAM package. There is also an expectation that Member States will have further opportunities to express their views once the Commission produces more concrete proposals. In any case, it is hard to escape the sense that the consultation process is fragmented and responses may be complicated to collate.

The targeted questionnaire is framed around a number of aspects of regional aid control – not only the RAG itself, but also aspects of the GBER that impinge on it. Eight areas of inquiry are addressed and each is discussed in the subsections that follow.

4.1 To what extent has SAM resulted in a shift away from regional aid?

The first topic concerns whether forms of support have shifted away from regional aid towards (i) other categories of aid, (ii) to infrastructure measures or (iii) to other non-State aid measures. The rationale for this question may partly lie in the more stringent criteria for regional aid for large firms in 'c' areas, which severely curtail the scope to offer such aid except in the case of greenfield investment.

Among the countries responding directly to this questionnaire, **Sweden** was alone in saying there had been no measurable change in State aid practice. The **German** authorities reported that a much higher share of regional policy funds had been allocated to infrastructure spending than in the past, and that regional aid support for businesses was perceived unfavourably because of the complexity of eligibility requirements and the justifications needed for support. In **Poland,** the SAM has resulted in all three other categories of support being used to a greater extent; the Polish authorities point to specific categories of aid under the GBER – culture and heritage conservation, aid for sports and infrastructures being better tailored to the kind of intervention being pursued. In **Norway** there is also perceived to have been a shift away from regional aid *per se* to other types of support, but this is not attributed to the State aid rules, but is rather a shift in the policy priorities of the government that favour infrastructure, especially roads, and innovation. Nevertheless, the regionally-discriminating

social security concession is still regarded as a valuable regional aid instrument (and accounts for significant sum annually).

4.2 Do the assisted area coverage and designation criteria enable appropriate targeting?

In terms of ***coverage***, several Member States expressed the concern that the population available was insufficient to enable all areas that merited designation to be included. In its response to the prolongation consultation, **France** had noted that the duration of the maps was insufficiently long for regional problems to be addressed, and when new issues ones arose, this required the de-designation of existing assisted areas. In **Sweden**, past reductions in coverage are considered to have excluded areas from the map which should have been supported and concern is expressed at the possibility of further reduction in coverage. In **Germany** the GRW subcommittee has been critical of the overall population ceiling approach for 'a' regions and 'c' areas. It proposes an alternative approach to coverage, suggesting that Member States should have a ceiling of around 25 percent for 'c' areas so that the capacity to address domestic regional disparities is not distorted by the scale and distribution of the 'a' regions. Related, the German authorities propose that the calculation of 'c' area population ceilings should take account only of domestic disparities in GDP and unemployment rates, instead of also factoring in EU averages, as at present.[23] Germany also refers to the need to ensure that there is no 'statistical effect' on coverage as a consequence of Brexit.

Turning to ***area designation indicators,*** there are a number of detailed and disparate comments. While supporting the current methods and indicators, **Poland** expresses concern at how out of date the maps are – noting that 2008-10 data were used for maps covering 2014-20 (or 2022, under the Commission proposals); this view is shared by **France.** In **Norway**, the concern is with the extent to which the chosen indicators reflect the *realities* of the regional problem and with the lack of flexibility in the system. In Norway several NUTS 2 regions are likely soon to exceed the very-sparsely-populated region threshold (8 inhabitants per km^2), but this does not mean that there is balanced growth within these regions; on the contrary, these regions are very heterogeneous with many areas either in decline or facing poor development. The need for aid has therefore not changed, even if the basic criterion is no longer met. A further issue in the Norwegian context is the 'contiguity' requirement and the increasing risk that isolated municipalities, where the need for support is clearly justified, cannot meet the requirement to be adjacent to NUTS 2 areas that meet the very-sparsely-populated region criterion.

4.3 Are the eligibility conditions for SMEs and large firms in 'a' regions and 'c' area appropriate?

RAG 2014-2020 and the GBER[24] together imposed significant restrictions in the scope to support large firms with regional aid; in the 'c' areas, this has largely eliminated the ability to aid large firms, except for 'initial investment in favour of new economic activity in the area concerned'.

The impact of this change has varied between countries depending on the extent to which large enterprises have typically been the target of regional aid in 'c' areas. In Germany, for example, the restriction has led to a substantial reduction in regional aid spend.

In considering the impact of these provisions the authorities in **Austria** argue that the concept of 'new economic activity' is the most disputed aspect of the regional aid framework, and subjects firms in 'c' areas to legal uncertainty, which in turn has led to some such investments being carried out in 'a' regions or outside the EU altogether. Austria also criticises the use of the NACE classification of economic activities, pointing out that 'apparent' diversification is much more easily achievable in some areas of activity than others, but purely because of the arbitrariness of the classification. This view of the NACE classification for the interpretation of diversification is also shared by **Germany**, which proposes that the regional aid framework should label excluded activities more consistently (a view shared by **Norway**) and presents a possible rationalisation of the current approach.

Sweden also draws attention to the difficulties in interpreting the concept of 'new economic activities'. It notes that the provisions result in sharp differences of treatment between firms when their real situation may not differ greatly – as in the case of firms that are deemed 'large' purely because of the role of private equity in providing capital.

The response from **Poland** notes that the actual differences in economic conditions between 'a' regions and 'c' areas within a country may not be that great, but the treatment of aid to large firms in 'c' areas differs markedly. It argues that the terms are too restrictive, especially in innovative sectors like telecommunications.

The response from **Germany** proposes that the firm size threshold should be extended to 'small mid-caps' in the range 250-500 employees, also suggested in the recent consultation on the definition of micro, small and medium-sized enterprises. A wider interpretation of firm size eligibility to include 'entreprises médianes' has also long been espoused by **France**.

4.4 Are the GBER eligibility and compatibility criteria for regional aid clear, appropriate and easy to implement?

This question elicited different types of responses – some specific and some general. The **German** authorities take the view that the definitions under the GBER (Article 2) have become highly complex, reflected in the large number of interpretative questions from Member States.

They therefore propose that the text be revised on the basis of these interpretations and that the present FAQs be maintained and updated, as well as translated into German (or all other EU languages).

Sweden expressed a relatively positive view overall regarding the simplification that the GBER had achieved. More specifically, the scope to use simplified costs options for Structural Fund projects is welcomed (the German authorities argue in their wider response that this facility should not be limited to Structural Funds cofinanced projects). On the other hand, the specific provisions for European Territorial Cooperation projects are considered to have been extremely difficult to apply in practice, largely because of the nature of the beneficiaries.

The response from **Norway** is rather more negative. The sectoral exclusions and other limitations are considered to reduce the efficiency of aid schemes and increase implementation and compliance costs. Norway also takes the view that regional aid schemes should be as horizontal as possible and sectoral exclusions kept to a minimum and closely-defined. In addition, Norway makes the same criticisms as Austria and Germany regarding the inconsistent use of the NACE classification (see 4.3).

4.5 Are the non-GBER eligibility and compatibility criteria for regional aid clear, appropriate and easy to implement?

There was little response on this question, no doubt largely reflecting the fact that almost all regional aid falls under the GBER; very few schemes or individual cases now fall to be assessed on the basis of the RAG *per se*, though it still specifies the assisted area map criteria. **Norway** expressed concern that over time the RAG would increasingly restrict the scope to support very sparsely populated areas and therefore require adaptation.

4.6 Are the 2017 anti-relocation provisions easier to implement and more effective than the 2014 provisions?

The Commission amended the GBER in 2017.[25] This added a definition of relocation to the GBER which refers to "a transfer of the same or similar activity…" from an 'initial establishment' in one EEA country to an 'aided establishment' in another. In particular there is a 'transfer' if the two establishments serve at least partly the same purpose and markets, and jobs are lost in a similar activity in the initial establishment. It also requires applicants to confirm that they have not carried out a relocation to the establishment for which aid is requested in the last two years, and commit not do so in the coming two years.

Member State reactions to this question were rather muted. **Sweden** considered that the terms were clearer, but could not comment on their effectiveness; **Poland** agreed that the changes had improved both ease of implementation and effectiveness. **Germany** noted that it would

be desirable to clarify whether there was a minimum number of jobs losses above which a relocation would be assumed – at present, the GBER refers simply to jobs being lost.

4.7 Are the sectoral exclusions from the regional aid guidelines justified and appropriate?

The regional aid framework is in principle open to all sectors, but in practice, a number of quite complex sectoral exclusions apply, and some of these differ for operating aid. More specifically:

- Steel and synthetic fibres are excluded from the RAG and the GBER and cannot be aided
- Some activities – fisheries, aquaculture, transport, airports and energy are at least partially subject to sector-specific guidelines and are excluded from the RAG and the GBER, though aid for transport and energy are eligible for regional investment aid in the OMRs and for regional operating aid
- Aid for coal and shipbuilding is excluded from regional aid under the GBER
- Regional operating aid is not available to finance and insurance activities, intragroup activities or business consultancy services.

Responses to this tended to be quite specific. **Norway** argued that since the transport and energy sectors were now covered by the regional aid chapter of the GBER, they should also be included in the RAG. In fact, this coverage only applies to operating aid, not investment aid, and crucially, from a Norwegian perspective, enables these sectors to qualify for the regionally-differentiated social security concession. The comments from **Poland** also relate to these sectors of activity, though from a Polish point of view, energy and transport are 'almost completely excluded' from regional aid provision. Poland argues that this restriction does not take account of the investment needs of the 'a' regions especially, which in some countries requires private investment with State support. The comments from **Germany** on sectoral coverage relate primarily to the need for a consistent approach to naming eligible activities and propose an alternative classification. Germany also notes that, in the German text, the exclusion of the synthetic fibres industry is unintentionally wider than in the English language version.

4.8 Do the operating aid provision address appropriately the difficulties facing assisted areas?

Commission control of operating aid is linked to the perceived need for aid transparency and antipathy towards supporting ongoing costs, and potentially dissuading firms from adapting to changing market conditions. In the early days of State aid control, this has led the Commission to outlaw a number of regional aid schemes often around or shortly after accession. The main exception to this has been the retention of operating aid in the outermost

regions and the low population density areas – in fact, the scope to provide such support to these areas has even been broadened somewhat.

This issue did not elicit much response to in the targeted survey. **Norway** (which benefits significantly from the provisions at present) expressed concerns over the future delineation of the areas in which operating aid would be available. **Sweden**, which also has extensive low population density areas, suggested that the type of business support that could be offered should be expanded in order more effectively to address issues such as permanent cost disadvantages linked to long distances, poorer access to finance and lack of skilled labour.

Germany, which does not have any regions qualifying for operating aid, argued that the current rules are very restrictive. It suggests that further exceptions to the limits on operating aid could be made for areas undergoing acute structural change to support specific activities such as recruitment of qualified workers or compensating for extra transport costs and other disadvantages in regions that still have inadequate infrastructure.

5 REGIONAL AID REPORTING AND TRANSPARENCY

One of the justifications for extending the Regional aid guidelines is to enable the Commission to assess the implementation of regional aid under the existing framework. It is not clear whether the Commission intends a detailed analysis of the use of regional aid as part of this; however, the transparency process introduced under the GBER has resulted in an extensive dataset.[26] Among other things, the transparency requirement mandate Member States to report specific information on all individual awards exceeding €500,000 with effect from 1 June 2016. There is some flexibility to the reporting, in particular:

- **Aid in the form of tax advantages can be reported in bands** - €0.5 -€1 million, €1-2 million, and so on to €30 million and over; inevitably, this reduced the accuracy of the information
- The information must be organised and accessible in a **standardised manner at but in practice, the approaches diverge considerably**, with some Member State opting to report through the Commission's State aid transparency database[27] and others choosing to maintain purely domestic systems.[28] The Commission should (GBER Article 9(5)(a)) provide links to all domestic websites, but if present at all, this is not prominent on its website.

These two factors complicate the analysis of the data. The discussion that follows considers the use of regional investment aid and regional operating aid in the EoRPA partner countries.[29] Although some countries appear to report *all* aid amounts, this is not comprehensive so the analysis is restricted to individual aid amounts exceeding €500,000. Importantly, the data concern all such aid reported and therefore often comprise aid offered by subnational authorities.

Table 5.1: Regional aid awards exceeding €500,000 in the EoRPA countries (2016-2019)

	Regional investment aid		Regional operating aid	
	€m	No. of awards	€m	No. of awards
AT	74.4	68		
FI	83.9	82		
FR	91.8	77	79.4	33
DE	1434.2	815		
IT	774.0	294		
NL	52.8	24		
NO			211.0	181
PL	5129.4	2633		
PT	1294.4	884		
SE	53.0	46	47.1	57
UK	166.0	105		

Notes: ***(i)*** *The data concern individual cases where the basis for aid was Article 14 GBER (regional investment aid) and Article 15 GBER (regional operating aid) and RAG-based decisions on regional operating aid schemes* ***(ii)*** *tax and social security concession data are generally reported as ranges for each recipient. In these calculations, the mid-point of the range has been used for each individual case;* ***(iii)*** *the data refers to awards reported between 1 June 2016 and 15 August 2019.*
Source: *Own calculations from: State Aid Transparency Public Search (https://webgate.ec.europa.eu/competition/transparency/public?lang=en); Registeret for offentlig støtte (https://data.brreg.no/rofs/); and System Udostępniania Danych o Pomocy Publicznej https://sudop.uokik.gov.pl/home*

The data in Table 5.1 are **difficult to assess in relation to total regional aid** spending. This is reported in the regular Commission State aid scoreboards as aid for 'regional development objectives', but not defined in relation to specific GBER articles or RAG-based decisions. Even taking the only complete year for which data is available under for both (2017) it seems clear that definitions only partially overlap (Table 5.2). It seems probable that this arises because GBER Article 14 (regional investment aid) can provide cover, for example, for aid that has SME development as its objective; conversely, support for broadband infrastructure, for instance, is often labelled as having a regional development objective, but is provided for separately under the GBER and bespoke guidelines.

Table 5.2: Large regional aid awards and State aid for 'regional development' objectives (2017)

	Regional aid awards exceeding €500k	Aid on 'regional development' objectives
AT	22.3	25.9
DE	727.5	1,160.3
FI	23.3	65.8
FR	44.6	2,844.1
IT	143.0	509.3
NL	8.4	2.9
PL	1615.6	1,929.8
PT	354.4	576.7
SE	38.3	71.7
UK	60.5	334.2
NO	122.2	940.18

Source: *State aid scoreboard 2018: https://webgate.ec.europa.eu/comp/redisstat/databrowser/view/COMP_SA_X$COMP_SA_01/default/table?category=COMP_MAIN and State Aid Scoreboard for 2017 for the EEA EFTA States: http://www.eftasurv.int/press--publications/scoreboards/state-aid-scoreboards/*

At **national level**, the number value of large awards is unevenly distributed. As would be expected, countries with extensive 'a' regions (notably Poland and Portugal) account for a significant share of the overall number and amount of large awards. However, there are also pronounced variations in the **distribution of projects among assisted areas** within the EoRPA countries.

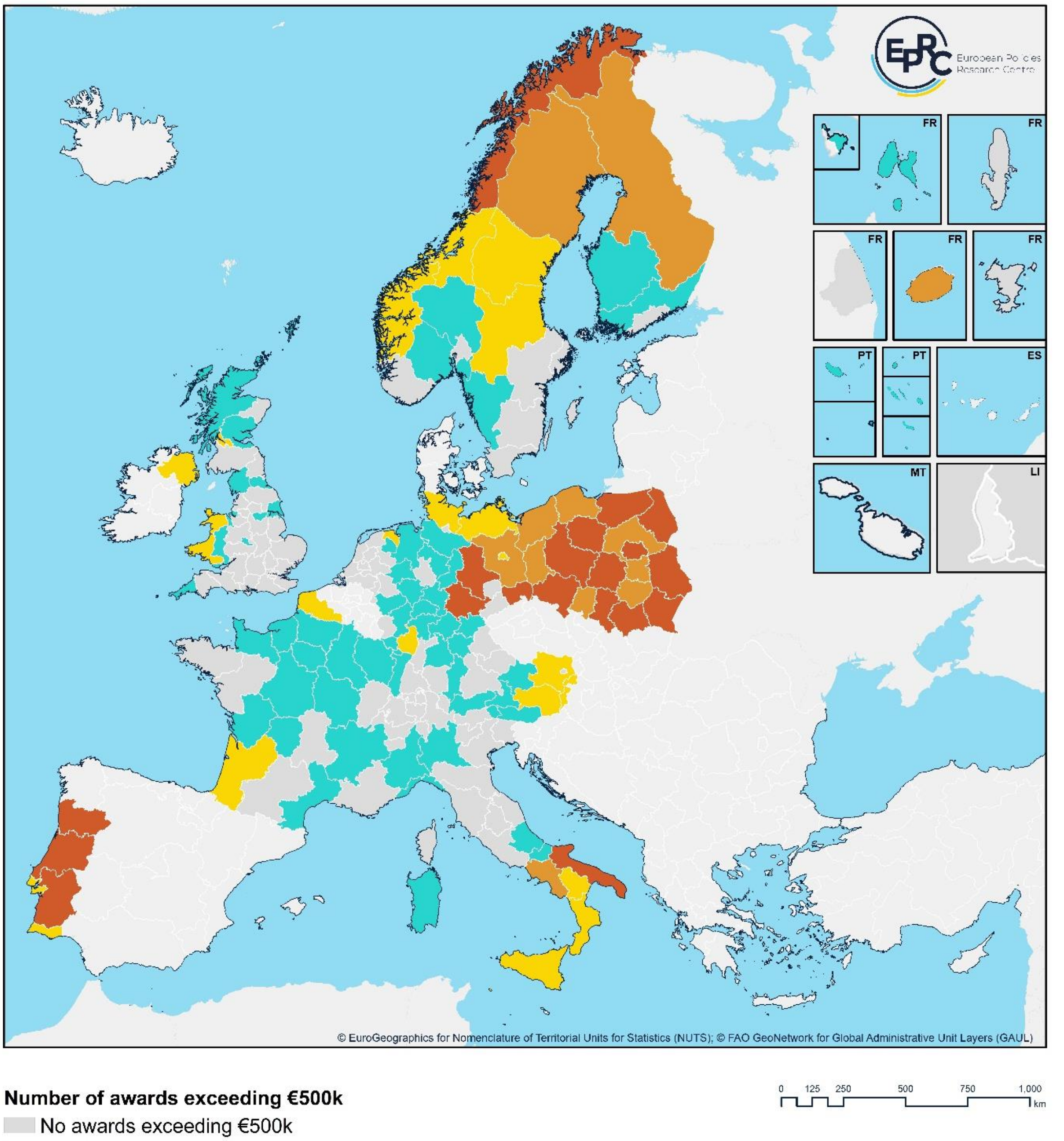
Looking first at the **number of regional aid awards** exceeding €500,000 (see Map 5.1), in Austria, France, western Germany, the Netherlands and the United Kingdom, there are generally fewer than 10 cases in any given region, with higher numbers in some older industrial regions such as Nord-Pas-de-Calais and West Wales and the Valleys. By contrast, case number over 100 in parts of Norway, Portugal, eastern Germany and Poland. An indicator related to the population of firms in a given region would also be desirable, but this data is not available for all regions.

In terms of **expenditure on large awards,** a more differentiated pattern emerges, obviously partly reflecting the number of cases, but also the aid ceilings applicable (see Map 5.2). Expenditure is heavily concentrate in certain regions, notably much of Poland, northern Portugal, parts of eastern Germany and southern Italy. Expenditure in Norway might appear lower than expected given the very large budget of the regionally-differentiated social security concession, but most awards do not exceed €500,000.

Turning the relative **economic importance of large awards** (Map 5.3) expressed as a percentage of GDP, this appears significant in only a few Portuguese and Polish regions.

Historically, it has always been extremely difficult to gain any comparative insights into levels of regional aid spend at the subnational level, so the transparency induced by the GBER represents a significant step forward. However, the option to maintain domestic systems means that accessing the data is a non-trivial task and the exclusion of smaller awards in many countries means the data is not comprehensive.

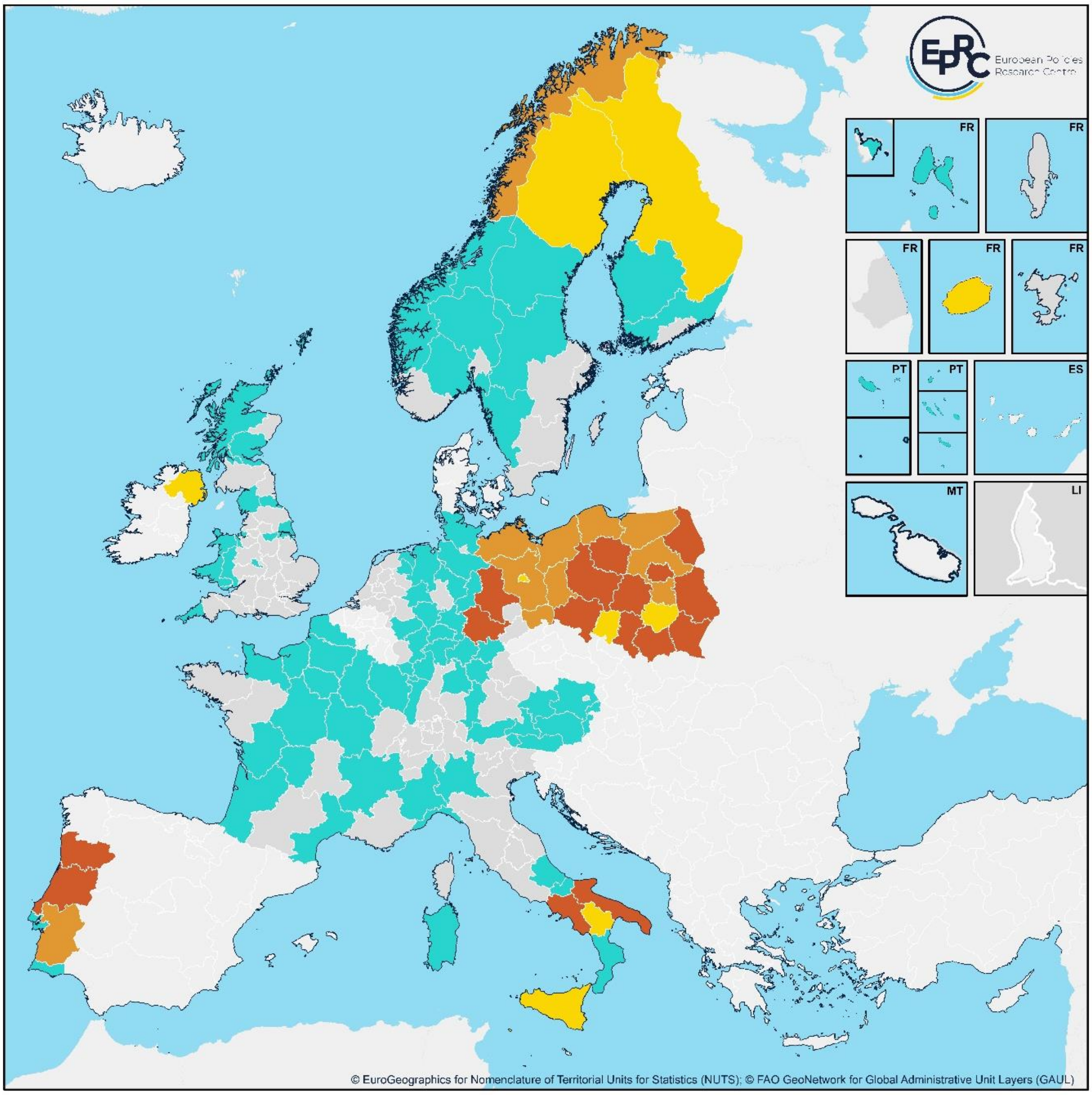
Map 5.1: Large regional aid awards in the EoRPA countries (June 2016-August 2019) – number of cases



Data reported on the basis of Article 14 and 15 GBER and RAG 2014-20 in the EoRPA countries.
These provisions do not apply to Switzerland.

Data Source: EPRC calculations from:
DG COMP State Aid Transparency Public Search;
Registeret for offentlig støtte; and
System Udostępniania Danych o Pomocy Publicznej

Map 5.2: Large regional aid awards in the EoRPA countries (June 2016-August 2019) - € million



Expenditure on awards exceeding €500k

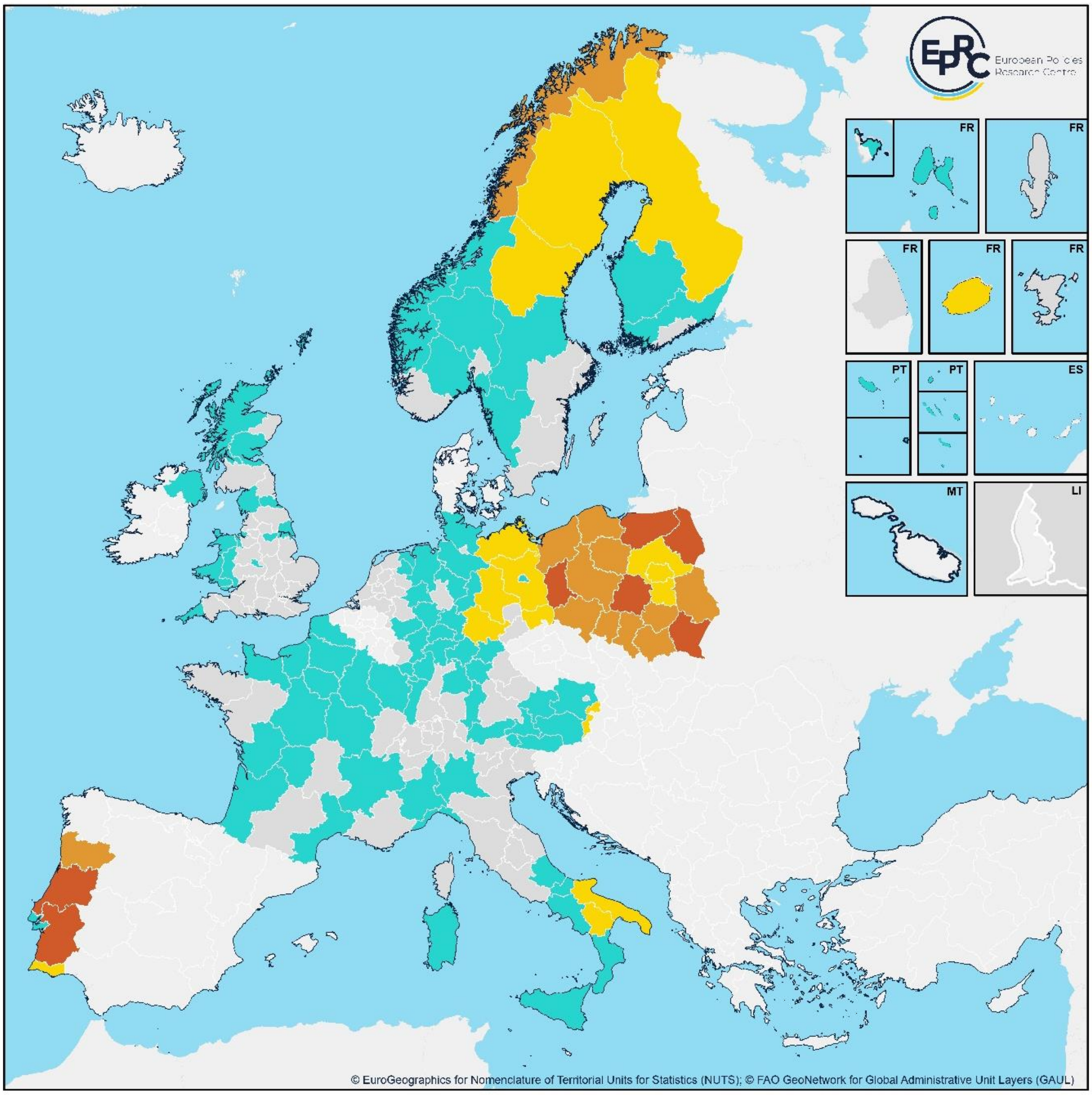
- No awards exceeding €500k
- <€50m
- €50m-€100m
- €100m-€200m
- >€200m

0 125 250 500 750 1,000 km

Data reported on the basis of Article 14 and 15 GBER and RAG 2014-20 in the EoRPA countries.
These provisions do not apply to Switzerland.

Data Source: EPRC calculations from:
DG COMP State Aid Transparency Public Search;
Registeret for offentlig støtte; and
System Udostępniania Danych o Pomocy Publicznej

Map 5.3: Large regional aid awards in the EoRPA countries (June 2016-August 2019) – percent of regional GDP



Expenditure on awards exceeding €500k (% of GDP)

- No awards exceeding €500k
- <0.1%
- 0.1 - 0.3%
- 0.3 - 0.7%
- >0.7%

0 125 250 500 750 1,000 km

Data reported on the basis of Article 14 and 15 GBER and RAG 2014-20 in the EoRPA countries.
These provisions do not apply to Switzerland.

Data Source: EPRC calculations from:
State Aid Transparency Public Search;
Registeret for offentlig støtte; and
System Udostępniania Danych o Pomocy Publicznej

6 REGIONAL AID EVALUATIONS

Among the new developments in both RAG 2014-20 and GBER 2014-20 was the scope for the Commission to make aid authorisation conditional on its approval of an evaluation plan.

RAG 2014-20 provides the possibility for the Commission to limit the validity of aid schemes to four years in order for an evaluation to be carried out.[30] The precise terms of any requirement to undertake an evaluation[31] are defined in the approval of the aid measure. To date, only in **Norway** has a regional aid scheme (the regionally-discriminating social security concession) been subject to an evaluation on the basis of RAG 2014-20.

GBER 2014-20 provides for the expiry of GBER cover after six months for schemes with annual budgets exceeding €150 million, pending the approval by the Commission of an appropriate evaluation plan. In effect, this means that unless a Member State is able to provide an evaluation plan that is acceptable to the Commission, then GBER cover would be withdrawn and the scheme in question would need to be notified. GBER 2014-20 sets out the minimum requirements for an evaluation plan;[32] these are:

- the objectives of the aid scheme
- evaluation questions
- result indicators
- the methodology envisaged
- data collection requirements
- proposed timing, including the date of submission of the final report
- description of the independent body conducting the evaluation or the criteria to be used for selecting the evaluator
- mechanisms for publicising the evaluation.

A provisional supplementary information sheet for the submission of an evaluation plan is available. Its use is not mandatory but 'recommended' and refers Member States to a common methodology for evaluation.[33] Member States were consulted on a version of this document in 2013, and many expressed concern at the ambition of the proposal and questioned the competence of the Commission to require evaluations of the effectiveness of measures financed with purely domestic resources. However, the Commission view prevailed.

In the last five years evaluation plans for regional aid schemes have been submitted by a number of Member States, some because of higher than expected expenditure under schemes that had been within the scope of the GBER before.

Table 3: Evaluation plans for regional aid schemes under RAG and GBER

	Scheme	Basis	Annual budget	Reference
CZ	Investment Incentives	GBER	437 million	SA.38751
DE	GA support for productive investment	GBER	€585 million	SA.39460
EL	General entrepreneurship under law 4399/2016	GBER	€304 million	SA.47412
HU	Development tax benefit scheme	GBER	€269 million	SA.39669
HU	Investment incentives	GBER	€175 million	SA.48680
HU	Regional investment aid from EDIOP	GBER	>€150 million	SA.52527
IT	Tax credit for productive investment	GBER	€617 million	SA.45184
IT	Aid scheme for large investment projects	GBER	€450 million	SA.48248
NO	Regionally-differentiated social security contribution (RDSSC)	RAG	€1404 million	225/14/COL
PL	Special Economic Zones (SEZ)	GBER	€507 million	SA.40523, SA.38830
PL	Competitiveness of SMEs under Regional Programme 2014-20	GBER	€226 million	SA. 43142
PL	PARP	GBER	€300 million	SA.42527
PT	Inovação Empresarial	GBER	€350 million	SA.42136
UK	Regional Growth Fund (RGF)	GBER	€4352 million (rounds 5 and 6, not all of which is State aid)	SA.39273

Note : A French scheme for the *Départements d'outre mer* (*Aide fiscale à l'investissement productif* – SA.41549) has also had an evaluation plan approved on the basis of the regional aid rules, but DOM policies are not considered part of regional policy *per se* in France.

The Commission's working paper[34] has been influential in determining the scope and nature of the plans approved among the EoRPA partners – see Figure 6.1 - which shows the prominence of econometric techniques, especially difference-in-differences, in the evaluation plans. Indeed, some policymakers have criticised the 'over-prescriptiveness' of the Commission's approach.

Figure 6.1: EoRPA partner regional aid evaluation plans approved by the Commission

	Scheme	Objectives	Evaluation questions	Results indicators	Methods
DE	GRW	To offset the locational disadvantages of the structurally weaker regions by supporting economic development to reduce regional disparities	Has GRW funding had an incentive effective on assisted firms? Does income and employment differ between comparable aided and non-aided firms? Are aided firms more viable in the long term? Is there evidence of other effect? Eg employee skills, R&D intensity? What is the causal impact of the GRW on aided firms? What is the cost of the programme?	Employment Revenue Survival rates Skills	Control group of 'matched' non-assisted firms. Difference in differences approach focussing on aided, non-aided and non-eligible firms
IT	Contratti di sviluppo	To strengthen the nation productive system by attracting new investments and by favouring large investment projects, especially in the less developed areas in southern Italy.	Direct effects of the measure on undertakings, investments, production efficiency, employment, innovation capacity. Indirect effects. Territorial effects Qualitative and quantitative effects in the tourism sector Potential negative effects due to coexistence of multiple support schemes	Investment Employment Patents Location of beneficiaries Sectoral impacts Value-added Turnover Profitability	Matching difference-in-differences regression analysis Regression discontinuity design Propensity score matching using local labour markets as single analysis units Case studies (for tourism sector) Theory-based methodology to assess effectiveness and efficiency of scheme compared to other aid measures.
NO	RDSSC	To prevent or reduce depopulation in already sparsely populated areas by lowering employment costs for firms in these areas, with the expectation that this will stimulate the local labour markets and lead to increased job opportunities and employment.	What is the scheme's impact on job opportunities and employment in the eligible regions, and prevention or reduction of depopulation? What is the effect on competition and trade?	Labour market participation; employment level and growth by zone and industry; wage income by zone; disposable income; industrial structure; firms size distribution; education level; central and local government incomes; capital accumulation; use of intermediates; hourly wage costs (Feasibility study proposal)	Difference in differences modelling Regression discontinuity design Matching procedure to identify control group
PL	Special Economic Zones (SEZ)	To increase investment, innovation, develop an efficient business environment, support initial development, increase availability of areas suitable for business development	Has the aid improved the performance of the beneficiaries? Has it encouraged increases in capital expenditure and has it change the behaviour of the firm? What has been the indirect impact – spillover effects, impact on competition	Sales, profits, productivity, financial indicators, capital expenditure, employment, share of innovative enterprises…	Econometric methods (difference-in-differences, propensity score matching and regression discontinuity design). For RDD, control group will comprise unsuccessful applicants. Analysis of indirect effects through theory-based impact evaluation,

			and crowding out and have policy objectives been met?	Regional GDP(PPS) and employment rates, capital expenditure compared to GDP	including case studies, focus groups and case studies
PL	Competitiveness of SMEs	Promoting entrepreneurship, start-ups, creation and expansion of product and service development	To what extent has investment aid encouraged companies to increase capital expenditure? How would economic operators have behaved in the absence of aid? Spillover effects; impact on competition and crowding-out, meeting policy objectives.	Value-added, productivity, employment, innovation GDP(PPS); employment rates; capital expenditure	Econometric methods (difference-in-differences, propensity score matching and regression discontinuity design). For RDD, control group will comprise unsuccessful applicants. Analysis of indirect effects through theory-based impact evaluation, including case studies, focus groups and case studies
PT	Inovacao Empresarial	To stimulate investment in structural weak regions; increase investment in innovative activities; promote increase in output and change in production profile of Portuguese firms.	A. Direct impact on beneficiaries: has aid contributed to improved performance of aided firms? Has it altered the investment behaviour or location of firms? B. Indirect impacts: (i) spillover effects and social benefits? (ii) crowding out and competition; (iii) contribution to policy objectives. C. Appropriateness / proportionality. Were types of aid most suitable? Was level of aid sufficient/too much to achieve results?	A. GVA; net employment; turnover; investment; productivity; 'new-to-the-market' products; 'new-to-the-firm' products (SMEs). B. (i) Indirect jobs; GVA linked to non-business R&I system; (ii) firm birth, death and survival rates; change in market shares (iii) GVA variation; business turnover variation; net employment creation; productivity increase; change in production profile. C. Leveraging of investment in relation to aid.	A. Econometric methods: difference-in-differences, complemented by cross-section data and panel methods; instrumental variables and regression discontinuity design; counterfactual approach at level of beneficiaries. B. Descriptive approach based on selected indicators, supplemented by case studies. C. Theory-based impact evaluation and benchmarking.
UK	Regional Growth Fund (RGF)	Stimulate enterprises by supporting projects with potential for economic growth, leveraging private investment and creating additional sustainable private sector employment Support areas currently dependent on the public sector to make the transition to sustainable private sector led growth and prosperity.	Impact: what are the causal effects of RGF-funded projects and programmes on beneficiary firms? Economic evaluation: how far are the costs of RGF justified by the benefits achieved?	For firm level grants and loans: capital investment, training expenditure, number of workers trained, research and development, patents, employment levels, profitability, productivity. For land and property: intermediate effects in local property markets (space and rents), employment and unemployment.	Longitudinal panel data sets comprising applicants, non-applicants, successful and unsuccessful applicants analysed through fuzzy regression discontinuity design, propensity score matching and fixed effects, difference in differences for survey data and synthetic control methods.

Source: *DG COMP and ESA decisions, EPRC country research*

In **Portugal** a specific concern about the methodology is the counterfactual approach to measuring the impact of aid. This is because the scheme is targeted at large enterprises, which are few in number, making it difficult to identify 'twins' for the purposes of the analysis.

Another wider concern among domestic policymakers has been the very short-term nature of the effects being measured – because of the timescale of the GBER and RAG requirements and the risk that changes could be sought to schemes before information about their real longer-term impact is actually known – a concern voiced explicitly by **Germany** and **Portugal**. The German authorities were keen to examine longer terms impacts and so agreed to provide an evaluation by the end of June 2020, but also proposed a second evaluation using data for 2014-20 period, to be concluded later. In practice, the Commission itself has at least partly recognised this 'timeframe' issue in its decision to prolong the RAG and the GBER in order to take account of the results of evaluations in future reforms of the rules.

A further complication is that some of the evaluations have been triggered quite late in the 2014-20 period by dint of increased budgets for existing GBER-cleared schemes. This, together with the time needed not only to generate sufficient relevant data, but also to undertake the analysis, means that, at the time of writing, only one regional aid evaluation appears to have been completed. This concerns the *Regionally-discriminating social security concession* (RDSSC) in **Norway**.

In budgetary terms the RDSSC is the single largest regional aid scheme in the European Economic Area – around €1.4 billion annually, of which around half goes to the private sector. It has had a chequered history in State aid control, beginning in 1995 with so-called 'appropriate measures' being adopted by the EFTA Surveillance Authority (ESA) but concluding with the 2017 revisions to the GBER which brought the RDSSC within the scope of the block exemption.[35] The RDSSC takes the form of reductions in social security contributions, for all employers in assisted areas, such that zero rates apply in the far north, with graduated rates in other peripheral and sparsely-populated areas, with the full rate applicable in Oslo. The aim of the scheme is to reduce or prevent depopulation by stimulating employment through reduced employment costs. The evaluation of the scheme was published in 2018[36] and reached a number of conclusions:

- The scheme has a *positive direct employment effect* due to lower wage costs
- It has a limited effect on wages, but this still has a *positive indirect employment effect* insofar as it increases household demand for locally-produced goods and services
- The RDSSC makes an important contribution to maintaining activity and employment *especially in regions where the rates are low or zero* – i.e. the most disadvantaged regions

- The RDSSC *enhances the domestic competitiveness of beneficiaries* (which is its intention), but the *impact on international competition is limited* because most recipient firms offer services locally.

- There is little evidence that the RDSSC has a distortive impact on EEA trade and competition. This is for several reasons: exporting firms in the assisted areas tend to be capital-intensive so that the benefits of a labour-based tax scheme are marginal; the scope of import competition is limited by a high degree of specialisation and low intra-industry trade; and the value of the RDSSC to the vast majority of exporting firm falls below *de minimis* support levels.

In **Poland** a first interim evaluation of the Regional Investment Aid (RIA) has been published.[37] The RIA is granted under Thematic Objective 3 (SME competitiveness) of 16 Regional Operational Programmes. The key research questions addressed are: (i) whether the aid resulted in positive outcomes in line with its goals; (ii) whether there are any negative outcomes which may distort competition; and (iii) whether the positive outcomes outweigh any negative impacts on competition. Although the evaluation remains at an early stage, there are some interesting insights. In particular, the report argues that the incentive effect of aid is limited, partly owing to the viability requirements of the scheme: the RIA tends not to induce investment decisions *per se*, or be sufficient to encourage firms to undertake highly innovative or risky investments, but it may affect decisions about the scale and timing of investment decisions; more specifically, over 80 percent of beneficiaries claimed that, without support, the scope of the project would have been reduced. The evaluation also argues that some of the award criteria, many of which are imposed by the State aid rules, increase the likelihood of deadweight, namely, the lack of support for firms in difficulty, the requirement for an own funds contribution and high project selection scores for applicants with higher own funds. There is also evidence of an impact on location with 8 percent of beneficiaries opening branches in regions with higher aid intensities – the most prominent being moves to Podkarpackie from Mazowieckie and Wielkopolskie. The final report will not be completed for some time as it will include an analysis of the data from the second quarter of 2020.

Elsewhere, evaluations are at different stages In **Portugal,** for example, evaluation of the *Inovação Empresarial* aid scheme is expected to be completed in the second half of 2019. Similarly, in **Germany,** work has started on the evaluation of the GRW but no results are yet available. The Federal Ministry for Economic Affairs and Energy expects that the first interim report will be completed in summer 2019 but that this report will focus on data collection, processing and methodology, and will not provide any results.

7 ISSUES FOR DISCUSSION

(i) The Commission has initiated a number of consultations related to regional aid. What do you make of the consultation process? Does it increase or reduce the capacity of Member States to influence the shape and scope of policy? Do you expect to be able to influence proposals as in the past or will the emphasis on gathering views now reduce the scope to do this?

(ii) What are your priorities for the upcoming RAG review? Maintaining current arrangements? Relaxation of restrictions on aid to large firms? Flexibility on spatial coverage and are designation?

(iii) How do you see, or wish to see, relations between Cohesion policy and the State aid rules evolving? To what extent are timescales an issue? Are State aid rule leaning too far in seeking to accommodate EU policies, compared with domestic policy?

(iv) Are the reporting and transparency requirements useful to domestic authorities or simply an additional burden? How could data collection / categorisation be improved?

(v) What merit, if any, do you see in the evaluation plans required by the Commission? What would be the domestic implications of results suggesting that regional aid had little or no incentive effect? Do you think that evaluation should remain a requirement in the State aid rules and in what circumstances.

Notes

[1] The focus of this paper is on *current* change. For a longer-term perspective on the relationship between competition policy and regional aid see: Wishlade, F (2017) State aid control of regional development policy at 60: harder and sharper, but not yet crystal clear? EoRPA paper 17/4; for a discussion of the mechanisms for determining the assisted areas under RAG 2014-2020, see Wishlade, F (2018) Mapping the next steps in competition policy control of regional aid, EoRPA paper 2018/8: http://www.eprc-strath.eu/eorpa/research-papers/competition-policy-regional-aid.html

[2] Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty , as amended: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0651&from=EN

[3] European Commission (2019) State aid scoreboard 2018: Results, trends and observations regarding EU28 State Aid expenditure reports for 2017.

[4] Council Regulation (EU) 2015/1588 of 13 July 2015 on the application of Article 107 and 108 of the Treaty on the Functioning of the European Union to certain categories of horizontal State aid (codification) OJEU L248/1, 24 September 2015: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R1588&from=EN

[5] Council Regulation (EU) 2018/1911 of 26 November 2018 amending Regulation (EU) 2015/1588 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to certain categories of horizontal State aid: https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1544435938430&uri=CELEX:32018R1911

[6] Roadmap for the prolongation of the GBER, Ref Ares(2019)27146-07/02/2019.

[7] Roadmap for the prolongation of the *de minimis* Regulation, Ref Ares(2019)727163-07/02/2019.

[8] Roadmap for the prolongation of the State aid rules, Ref Ares(2019)727130-07/02/2019.

[9] As well as the Guidelines on risk finance aid, the Communication on State aid for important projects of common European interest, the Guidelines on State aid for environmental protection and energy and the Guidelines on State aid for rescue and restructuring.

[10] Consultation ref HT.5594: https://ec.europa.eu/competition/consultations/2019_gber_deminimis/index_en.html#contributions

[11] [Draft] Regulation amending Commission Regulation (EU) No 1407/2013 [*the* de minimis *Regulation*]… and Commission Regulation (EU) No 651/2014 [*the GBER*]… as regards their period of validity: https://ec.europa.eu/competition/consultations/2019_gber_deminimis/gber_deminimis_en.pdf

[12] As well as the Regional Aid Guidelines, those on risk finance aid, important projects of common European interest, environmental protection & energy and rescue & restructuring aid.

[13] [Draft] Communication concerning the prolongation of the Commission Guidelines on Regional State Aid for 2014-20 referring to the national regional aid maps, Commission Guidelines of State Aid to Promote Risk Finance Investments, etc.: https://ec.europa.eu/competition/consultations/2019_gber_deminimis/guidelines_en.pdf

[14] European Commission, Competition DG (2019) Consultation strategy for the fitness check of the State aid rules: https://ec.europa.eu/competition/state_aid/modernisation/fitness_check_consultation_strategy.pdf

[15] Namely, the Research, Development & Innovation Framework, the Airport and Aviation Guidelines, the Railways Guidelines and the Short-term Export Credit Communication.

[16] https://ec.europa.eu/info/law/law-making-process/planning-and-proposing-law/better-regulation-why-and-how/better-regulation-guidelines-and-toolbox_en

[17] This is calculated on the basis of EU27 averages and regional GDP data for 2016 and 2017, with 2018 data estimated on the basis of national GDP growth rates for 2018.

[18] Communication for the Commission amending Annex I to the Guidelines on regional aid for 2014-20, OJEU C231/1 of 25 June 2016.

[19] State aid case no. SA.46345 (2016/N) – Finland – Amendment to the regional aid map for Finland (2014-2020) for the period 2017-2020

[20] Regional aid guidelines 2014-20, para 181.

[21] see Wishlade, F (2018) Mapping the next steps in competition policy control of regional aid, EoRPA paper 2018/8: http://www.eprc-strath.eu/eorpa/research-papers/competition-policy-regional-aid.html

[22] Among the EoRPA partners, Norway, Poland and Sweden sent specific response to the targeted questionnaire; Germany incorporated its response to the targeted questionnaire on regional aid into a wider response on the SAM 'fitness check; Austria did not respond to the targeted questionnaire, but shared its reply to the Sheppard Mullen survey (which is not published); Portugal answered the questionnaire but owing to technical issues could not share its response at this stage; It is unclear whether France, Italy, the Netherlands and Finland responded. The UK did not respond.

[23] See RAG 2014-20, point 162 and Annex II, point 2.

[24] See GBER Article 14(3).

[25] Commission Regulation (EU) 2017/1084 amending the Regulation 651/2014; OJEU L156/1 of 20 June 2017.

[26] See GBER Article 9.

[27] See: https://webgate.ec.europa.eu/competition/transparency/public?lang=en

[28] Cyprus, Poland, Romania, Spain.

[29] Essentially GBER Articles 14 and 15, respectively, and the Regional aid guidelines in a few specific instances, such as the Norwegian regionally-discriminating social security concession.

[30] RAG 2014-20, para 27.

[31] See also: http://ec.europa.eu/competition/state_aid/modernisation/evaluation_issues_paper_en.pdf

[32] GBER 2014-20, Article 2(14).

[33] Commission Staff Working Document "Common methodology for State aid evaluation, 28 May 2014, SWD(2014) 179 final http://ec.europa.eu/competition/state_aid/modernisation/state_aid_evaluation_methodology_en.pdf

[34] Commission Staff Working Document "Common methodology for State aid evaluation", 28 May 2014, SWD(2014) 179 final http://ec.europa.eu/competition/state_aid/modernisation/state_aid_evaluation_methodology_en.pdf

[35] See Wishlade, F (2017) *op cit* Figure 18 at p. 23 for a summary.

[36] Samfunnsøkonomisk analyse AS (2018) Evaluation of the regionally differentiated social security contributions in Norway, report 26-2018.

[37] Evalu, STOS, WiseEuropa (2018) Ewaluacja regionalnej pomocy inwestycyjnej w zakresie celu tematycznego 3 w obszarze wzmacniania konkurencyjności mikroprzedsiębiorstw oraz małych i średnich przedsiębiorstw w ramach regionalnych programów operacyjnych na lata 2014-2020.

EoRPA RESEARCH

This report was prepared by the European Policies Research Centre (EPRC) under the aegis of EoRPA (European Regional Policy Research Consortium), which is a grouping of national government authorities from countries across Europe. The Consortium provides sponsorship for EPRC to undertake regular monitoring and comparative analysis of the regional policies of European countries and the inter-relationships with EU Cohesion and Competition policies. During 2018-19, EoRPA Members have comprised the following partners:

Austria

- Bundesministerium für Nachhaltigkeit und Tourismus (Ministry for Sustainability and Tourism), Vienna

Finland

- Työ- ja elinkeinoministeriö (Ministry of Economic Affairs and Employment), Helsinki

France

- Commissariat Général à l'Egalité des territoires (General Commissariat for Territorial Equality, CGET), Paris (membership renewal pending)

Germany

- Bundesministerium für Wirtschaft und Energie (Federal Ministry for Economic Affairs and Energy), Berlin
- Niedersächsisches Ministerium für Wirtschaft, Arbeit, Verkehr und Digitalisierung (Lower Saxony Ministry for Economic Affairs, Employment, Transport and Digitalisation), Lower Saxony

Italy

- Agenzia per la Coesione Territoriale (Agency for Territorial Cohesion), Rome

Netherlands

- Ministerie van Economische Zaken en Klimaat (Ministry of Economic Affairs and Climate Policy), The Hague

Norway

- Kommunal- og moderniseringsdepartementet (Ministry of Local Government and Modernisation), Oslo

Poland

- Ministerstwo Inwestycji i Rozwoju (Ministry of Investment and Economic Development), Warsaw

Portugal

- Agência para o Desenvolvimento e Coesão (Agency for Development and Cohesion), Lisbon

Sweden

- Näringsdepartementet (Ministry of Enterprise and Innovation), Stockholm

Switzerland

- Staatssekretariat für Wirtschaft (SECO, State Secretariat for Economic Affairs), Bern

United Kingdom

- Department for Business, Energy & Industrial Strategy, London
- Scottish Government, Glasgow

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